CITY OF LONG BEACH
HOUSING TRUST FUND STUDY

PART II
INCLUSIONARY HOUSING IMPLEMENTATION POLICIES AND PRACTICES

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INCLUSIONARY HOUSING IMPLEMENTATION POLICIES AND PRACTICES

June 13, 2003

A. Introduction

DRA was retained by the City of Long Beach to provide City staff with guidance on the development of policies and practices for an inclusionary housing program. This report reviews policies and program options which the City should address if it chooses to develop an inclusionary housing program.

With the development of an inclusionary housing program, the City of Long Beach must consider a number of policy issues. In summary, major policy issues are as follows:

- affordable housing set-aside requirements;
- applicability of an inclusionary housing ordinance;
- term of affordability of rental inclusionary units and resale restrictions for owner inclusionary units;
- options for developers to comply with inclusionary housing requirements;
- incentives and/or offsets to the costs of complying with inclusionary requirements; and,
- use of public subsidies to meet inclusionary housing requirements.

This report discusses these policy issues to provide the City with guidance as it considers development of an inclusionary housing program.

B. Affordable Housing Set-Aside Requirements

There are two important considerations regarding affordable housing set-aside requirements:

- percentage of total units that must be affordable units; and,
- target household incomes for affordable units.

This section discusses these two issues.

1. Percentage of Affordable Units

The Northern California Association of Nonprofit Housing (NPH) conducted a survey of inclusionary housing programs across the state. NPH found that jurisdictions with inclusionary housing programs require developers to set-aside between five percent and 25 percent of all units for very low, low, and/or moderate income households ("set-aside requirements"). Most jurisdictions impose between 10 percent and 20 percent inclusionary requirements.

An important consideration when establishing an inclusionary requirement is the economic effect on developers. The economic effect on developers of an inclusionary housing requirement is likely to be limited by adjustments in land prices. When developers analyze alternative development opportunities, they often conduct a land residual analysis that calculates the value attributed to land from proposed development on that site. Such analysis is commonly used by real estate developers and investors to evaluate development financial feasibility and select among alternative uses for a piece of property and determine the price to pay for it. Therefore, developers who conduct such analyses will be able to determine the economic feasibility of a residential development opportunity and adjust what they will pay for land accordingly. This analysis allows developers to evaluate the effect of providing affordable housing units on-site and quantifies how much they should pay for land with inclusionary requirements. Land values are also affected by a number of other factors, such as availability of development opportunities, the overall economy, interest rates, land costs in surrounding areas, and several other factors. Developers who evaluate and understand inclusionary requirements, however, can take into account these effects when negotiating land purchase prices.

DRA conducted a land residual analysis that quantifies the economic effect of an inclusionary housing requirement. The land residual analysis calculates the value of a development based on its income potential and subtracts the costs of development and developer profit to yield the underlying value of the land. When evaluating alternative land uses, the alternative that generates the highest value to a site is considered its highest and best use. An alternative that generates a value to the land that is negative is not financially feasible**.** The land residual analysis also enables us to quantify the economic effect of an inclusionary housing requirement as well as the economic value of alternative compliance methods and offsets that can be offered to developers.

The land residual analyses demonstrate that increasing the percentage set-aside requirement has a discernible economic impact on land values. However, offering alternative compliance options and offsets can completely mitigate the economic impact of a 10 percent inclusionary requirement (assuming targeting rental households at 45 percent of area median income and owner households at 90 percent of area median income). Increasing the set-aside requirement beyond 10 percent may result in reductions in land residual values that cannot be completely compensated by alternative compliance options and offsets under certain scenarios. In particular, if density bonuses are not offered to developers, then land residual values will certainly be reduced under inclusionary requirements of 10 percent and above.

Table 1 compares land residual values under four alternative scenarios for the two rental housing prototypes incorporated in the Inclusionary Housing Study:

- no inclusionary requirement (100% market rate);
- a 10 percent inclusionary requirement targeting households at 45 percent of area median income;
- a 10 percent inclusionary requirement targeting households at 60 percent of area median income; and,
- a 15 percent inclusionary requirement targeting households at 60 percent of area median income.

Table 1

2003
Residual Land Value Per Square Foot Site Area
Rental Housing Prototypes
Alternative Inclusionary Requirement Scenarios
City of Long Beach Inclusionary Housing Study

Inclusionary Housing Set-Aside Requirement	Prototype	
	Renter 1 Townhomes, 22 units, 25 units/acre	**Renter 2 Type V Apartments, 50 units, 70 units/acre**
100% Market Rate Units	$18.23	$55.04
10% of Units at 45% AMI (1)	$10.91	$31.48
10% of Units at 60% AMI	$12.35	$36.38
15% of Units at 60% AMI	$8.42	$27.34

(1) AMI: area median income.
Source: David Paul Rosen & Associates

Table 1 shows that the economic impact of an inclusionary housing requirement – without any offsets or alternative compliance options – can be significant. Depending upon the inclusionary requirement, land residual value can be reduced by over half for each prototype.

All jurisdictions, however, offer some form of offset and/or alternative compliance options. As we discuss later in this report, alternative compliance options and offsets can even increase the value of land relative to the market price of land. **Table 2** provides examples of land residual values based on a 10 percent inclusionary requirement that targets rental households at 45 percent of area median income, and two alternative "packages" of alternative compliance options and offsets:

- Package 1: 25 percent density bonus, fee deferrals, and affordable unit modifications; and,

- Package 2: off-site compliance, fee deferrals, and affordable unit modifications.

Affordable unit modifications include allowing developers to reduce the size, use modest interior finishes, and reduce the number of bathrooms in the affordable units. Fee deferrals incorporate delaying payment of City building permit fees from start of construction to receipt of the certificate of occupancy.

Although a 10 percent inclusionary requirement targeting households at 45 percent of area median income reduces residual land value from $18.23 per square foot to $10.91 per square foot, developers taking advantage of the alternative compliance options and offsets in Package 1 and 2 can mitigate the economic effect of the inclusionary requirement. Under Package 1, which is a scenario where developer use a 25 percent density bonus, deferral of building permit fees, and affordable unit modifications, land residual value actually increases slightly for some prototypes. With Package 2, which is a scenario where developers employ off-site compliance, fee deferrals, and affordable unit modifications, land residual values decrease by approximately 18 percent to 20 percent.

Table 2

2003
Residual Land Value Per Square Foot Site Area
Rental Housing Prototypes with Alternative Inclusionary Housing "Packages"
Inclusionary Scenario 1: 10% of Units Affordable at 45% of Area Median Income
City of Long Beach Inclusionary Housing Study

Inclusionary Housing Set-Aside Requirements and Alternative Compliance/Offsets "Packages"	Prototypes	
	Renter 1 Townhomes	Renter 2 Type V Apartments
Total "Baseline" Units	22	50
Density (development units/acre)	25	70
Market: **100% Market-Rate Units**	$18.23	$55.04
Inclusionary Requirement: **10% of Units at 45% AMI** (1)	$10.91	$31.48
Package 1: **10% of units at 45% AMI; 25% density bonus; fee deferrals; affordable unit modifications**	$20.12	$51.60
Package 2: **10% of units at 45%; off-site compliance; fee deferrals; affordable unit modifications**	$14.93	$44.09

(1) AMI: area median income.
Source: David Paul Rosen & Associates

Table 3 compares land residual values under four alternative scenarios for the four owner housing prototypes incorporated in the Inclusionary Housing Study:

- no inclusionary requirement (100% market rate);
- a 10 percent inclusionary requirement targeting households at 90 percent of area median income;
- a 15 percent inclusionary requirement targeting households at 90 percent of area median income; and,
- a 20 percent inclusionary requirement targeting households at 90 percent of area median income.

Similar to the land residual analysis for the rental housing prototypes, imposing inclusionary requirements without any offsets or alternative compliance options can significantly reduce land residual value. A 10 percent inclusionary requirement targeting households at 90 percent of area median income reduces land residual values by approximately 14 percent for the Owner 1 Small Lot Single Family Detached prototype and approximately 70 percent for the Type 1 High-Rise Condo prototype. A 20 percent inclusionary requirement targeting households at 90 percent of area median income reduces land residual values by over 24 percent for the Owner 1 Small Lot Single Family Detached prototype. A 15 percent inclusionary requirement and a 20 percent inclusionary requirement result in negative residual land values for the Type 1 High-Rise Condo prototype.

Table 4 summarizes land residual values for the owner prototypes under a 10 percent inclusionary requirement targeting households at 90 percent of area median income and two alternative "packages" of alternative compliance options and offsets:

- Package 1: 25 percent density bonus, fee deferrals, and affordable unit modifications; and,
- Package 2: off-site compliance, fee deferrals, and affordable unit modifications.

Affordable unit modifications include allowing developers to reduce the size, use modest interior finishes, and reduce the number of bathrooms in the affordable units.

Table 3

2003
Residual Land Value Per Square Foot Site Area
Owner Housing Prototypes
Alternative Inclusionary Requirement Scenarios
City of Long Beach Inclusionary Housing Study

Inclusionary Housing Set-Aside Requirements	Prototypes			
	Owner 1 **Small-Lot Single Family Detached** **10 units, 15 units/acre**	**Owner 2** **Townhomes** **22 units, 25 units/acre**	**Owner 3** **Type V Condos** **50 units, 70 units/acre**	**Owner 4** **Type 1 High-Rise Condos** **100 units, 100 units/acre**
100% Market Rate Units	$27.15	$41.06	$101.30	$68.34
10% of Units at 90% AMI (1)	$23.47	$34.74	$84.70	$20.83
15% of Units at 90% AMI	$23.47(2)	$31.92	$77.84	($1.60)
20% of Units at 90% AMI	$20.51	$28.42	$66.90	($31.79)

(1) AMI: area median income.
(2) We assume that "fractional" units are not built under an inclusionary ordinance.
Source: David Paul Rosen & Associates

Table 4

2003
Residual Land Value Per Square Foot Site Area
Owner Housing Prototypes with Alternative Inclusionary Housing "Packages"
Inclusionary Scenario 1: 10% of Units Affordable at 90% of Area Median Income
City of Long Beach Inclusionary Housing Study

Inclusionary Housing Set-Aside Requirements and Alternative Compliance/Offsets "Packages"	Prototypes			
	Owner 1 Small-Lot Single-Family Det.	Owner 2 Townhomes	Owner 3 Type V Condos	Owner 4 Type I High-Rise Condos
Total Units:	10	22	50	100
Density (development units/acre)	15	25	70	100
Market: **100% Market-Rate Units**	$27.15	$41.06	$101.30	$68.34
Inclusionary Requirement: **10% of Units at 90% AMI** (1)	$23.47	$34.74	$84.70	$20.83
Package 1: **10% of units at 90% AMI; 25% density bonus; fee deferral, affordable unit modifications**	$40.91	$49.14	$110.53	$22.66
Package 2: **10% of units at 90% AMI; off-site compliance; fee deferral, affordable unit modifications**	$27.16	$41.32	$95.96	$65.02

(1) AMI: area median income
Source: David Rosen & Associates

With the exception of the Owner 4 Type 1 High Rise Condo prototype under Package 1, **Table 4** shows that offering alternative compliance options and offsets can completely mitigate the economic impact of an inclusionary requirement. With the Owner 4 Type 1 High Rise Condo prototype, the increase in costs due to a higher density development result in reducing land residual value under Package 1.

In conclusion, providing alternative compliance options and offsets can completely mitigate the economic impact of a 10 percent inclusionary requirement if renter households at 45 percent of area median income and owner households at 90 percent of area median income are targeted. Therefore, if the City seeks to adopt an inclusionary program, it should provide developers with the opportunity to mitigate the economic impact of providing affordable units through the use of alternative compliance options and offsets.

2. Targeted Household Income

An inclusionary housing program by itself is not sufficient to meet all affordable housing needs in a locale. Instead, the purpose of an inclusionary housing program is to provide the City with an additional tool for meeting its extensive affordable housing needs.

Typically, cities target very low and low income rental households and low and moderate income owner households with their inclusionary programs. Cities recognize that it is costly to provide ownership units affordable to very low income persons and therefore typically do not require developers to meet these income targets.

The land residual analyses indicate that targeting rental households at 45 percent of area median income with a 10 percent inclusionary requirement does not have a significant economic effect if an appropriate package of alternative compliance options and offsets are provided. In addition, targeting ownership households at 90 percent of area median income with a 10 percent inclusionary requirement will have little to no economic effect if an appropriate package of alternative compliance options and offsets are offered.

C. Applicability of Inclusionary Housing Ordinance

The three major considerations regarding the applicability of an inclusionary housing ordinance are as follows:

- geographic applicability;
- minimum project size; and
- "grandfather" provision for projects in the development process.

1. Geographic Applicability of Inclusionary Ordinance

Cities typically apply their inclusionary housing ordinance to the entire city unless there is a public policy reason for exempting certain areas. For example, some cities exempt housing developments in redevelopment project areas to encourage housing development in those areas. It is more common for cities to apply their ordinances to the entire city to maximize the number of units constructed under their inclusionary programs. Instead of exempting redevelopment project areas or other areas with special designations, cities typically direct more capital resources and/or other incentives to these areas to encourage development.

Some cities designate specific planning areas where inclusionary requirements will be higher than in other areas of the city. Mission Bay in San Francisco, Otay Ranch in Chula Vista, and Center City West in Los Angeles are two examples. With Long Beach, certain planning areas, such as the Boeing site, may be appropriate for enhanced inclusionary requirements.

2. Minimum Project Size

Most cities exempt smaller developments from inclusionary housing requirements because providing an inclusionary unit can be relatively more burdensome than providing affordable units in larger projects. DRA is not aware of any jurisdictions that apply inclusionary requirements to single family homes.

If a jurisdiction seeks to apply inclusionary housing requirements to small developments, then it should allow developers to pay in lieu fees if the inclusionary housing requirement results in a fractional unit. If a developer of a small project is required to provide an affordable unit even though the inclusionary requirement results in a fractional unit, then the developer bears a higher economic burden than a developer of a larger project.

For example, if a jurisdiction establishes a 20 percent inclusionary requirement on all housing developments larger than single family homes, than developers of duplexes,

triplexes and four-plexes bear a relatively high economic burden if they must provide an affordable unit. In this example, a developer of a duplex must now build a third unit, which means that one-third of the development is income restricted. To be equitable, these developers should be allowed to pay an in lieu fee equal to their inclusionary obligations. In the case of a duplex developer, this development has a fractional requirement of 0.4 affordable units. Therefore, this developer should pay an in lieu fee equal to 0.4 times the per unit in lieu fee amount.

3. "Grandfather" Provisions

Typically, jurisdictions will not apply a new fee to projects that have secured building permits. Most jurisdictions believe that applying a new fee after construction has started represents an unanticipated cost to developers and is therefore an unfair burden.

A city should establish a standard where a developer has sufficient time to incorporate inclusionary requirements as well as alternative compliance options and potential offsets in their project financial calculations. However, it is important to understand that many, if not most, developers are aware that a city is considering passage of an inclusionary housing program long before the ordinance is adopted. Typically, there are numerous public hearings, the Planning Commission considers the ordinance prior to the City Council, and the City Council has two readings of the ordinance.

Typically, cities believe it is fair to exempt developers that are "far along enough" in the development process that incorporating an inclusionary requirement is an additional, unanticipated cost. This is typically the point when a developer has formally defined its project to the city. With some cities, this point is at filing of a deemed complete subdivision map application. Long Beach should review its planning process to determine when it is appropriate to exempt developers from new inclusionary requirements. It is also appropriate for Long Beach to review its development pipeline to set an appropriate grandfather provision.

D. Term of Affordability and Enforcement

With inclusionary requirements for rental developments, cities must decide on the term of affordability of the inclusionary units and the mechanism for enforcing affordability requirements.

Most cities establish renter affordability restrictions between 20 to 55 years. These affordability requirements are typically evidenced by recorded regulatory agreements.

With owner developments, cities establish resale restrictions for inclusionary units. Typically, the increase in an inclusionary ownership unit price is based on increases in median income or the Consumer Price Index, plus the value of improvements (approved by the city), and any sales commissions. By restricting the resale of these homes, cities ensure that these homebuyers do not experience windfalls by purchasing homes at restricted prices and selling them at market prices.

Cities enforce resale restrictions by incorporating these restrictions in the deed. In addition, it is typical for resale restrictions to expire within a defined period of time, such as 30 years. However, with each sale of the property, unless the owner has held the property for longer than 30 years, a new resale restriction period is imposed.

Additionally, cities impose occupancy requirements on buyers of inclusionary units. This requirement ensures that the use of the property meets the original intention, which is providing a low or moderate-income person an affordable home. This policy also avoids any potential issues with absentee owners of rental properties.

Finally, cities often hold a first right of refusal to purchase a property if it is sold prior to expiration of the resale restricted period. By exercising the right to purchase, a city has an opportunity to provide this unit to a household participating in the city's homebuyer program.

With the imposition of affordability restrictions, cities must develop appropriate asset management systems to ensure that developers are meeting their obligations. An asset management system should enable a city to determine if developers are renting their units at affordable rates, units are occupied by targeted income groups, homes are sold to targeted income groups, and resale restrictions are managed properly.

E. Alternative Compliance Options

The ultimate goal of an inclusionary ordinance is to produce housing units affordable to very low, low, and moderate income persons. The simplest method is to require developers to build affordable units on the same site and at the same time as the market rate units. However, developers face a variety of circumstances where a city may wish to consider alternatives to on-site compliance of inclusionary requirements. For example, it can be costly for a luxury single family detached housing development to include affordable homes on-site that are comparable to the market rate homes.

One important consideration is the need to create incentives to ensure that a jurisdiction's public policy goals for its inclusionary housing ordinance are met. To achieve this goal, jurisdictions can design alternative compliance measures to provide developers with an incentive to build affordable units on-site. For example, a jurisdiction may allow developers to dedicate land to the jurisdiction or a nonprofit housing developer (such as the Long Beach Housing Development Company) rather than provide affordable housing units on the same site as the market rate development. However, as an incentive for developers to provide affordable units on the same site as the market rate development, the jurisdiction may require that the value of the land dedicated by a developer exceed the cost of providing the affordable units on-site. In this context, the affordability gap analysis can be used to develop alternative compliance measures that provide developers with an incentive to construct affordable units on-site because the gap analysis quantifies the cost of providing affordable units.

Most jurisdictions offer alternative compliance options as part of their inclusionary housing programs. Alternative compliance measures offer developers opportunities to reduce development costs by allowing developers to meet their affordable housing requirements through methods other than on-site construction of units comparable to market rate units. This section analyzes the strengths and weaknesses of three alternative compliance measures:

- in-lieu fees: payment of fees to a jurisdiction in lieu of constructing affordable housing units;
- off-site compliance: construction of affordable units at a site other than the market rate development; and,
- land dedications: dedicating land to a nonprofit housing developer or to the jurisdiction for the purpose of constructing affordable units.

Table 5 summarizes the strengths and weaknesses of each option.

Table 5

Summary of Strengths and Weaknesses
of Alternative Compliance Measures
City of Long Beach Inclusionary Housing Study

Alternative Compliance Option	Strengths	Weaknesses
In-lieu Fee	• easy to administer • can be used when inclusionary requirements result in fractions of units • jurisdiction can target uses of funds to meet a variety of affordable housing policy goals	• unless fees are comparable to affordability gap, fees may result in development of fewer affordable units • affordable units may not be constructed in a defined time frame • affordable units not provided on-site
Off-Site Compliance	• may lower costs of compliance • can result in development of more affordable units with additional subsidies • allows for partnerships between market rate and affordable housing developers	• difficult to enforce construction of units • affordable units not provided on-site • completion of affordable units may be delayed • potential neighborhood opposition issues
Land Dedication	• can result in development of more affordable units with additional subsidies • allows for partnerships between market rate and affordable housing developers	• additional subsidies necessary to build affordable units • affordable units not provided on-site • completion of affordable units may be delayed • potential neighborhood opposition issues

1. In-Lieu Fees

a. Advantages of In-Lieu Fee Option

Most cities offer the payment of in lieu fees as an alternative compliance measure. In practice, an in lieu fee option is simple to administer. Once a schedule of in lieu fees is developed (based on factors such as a jurisdiction's inclusionary requirements, target household incomes, size of units, rental or ownership housing), then it is a simple matter to assess the fee.

In lieu fees are especially useful with jurisdictions that choose to apply inclusionary requirements to very small developments. When an inclusionary ordinance results in fractional units, developers can pay fees in lieu of building an affordable unit. For example, a city with a 20 percent inclusionary requirement can allow developers of projects up to four units to pay in lieu fees rather than requiring these developers to build an affordable unit.

In lieu fees also provide a jurisdiction with an added degree of flexibility with its affordable housing production. With in lieu fees, a jurisdiction decides how it will use the funds (e.g. downpayment and mortgage assistance for first-time homebuyers, constructing rental housing for very low income households, etc.). In contrast, requiring on-site compliance usually means that the affordable housing product type will be similar to the market rate housing product.

b. Disadvantages

Generally, jurisdictions seek construction of affordable housing units rather than payment of in lieu fees for three reasons. First, unless in lieu fees are set at a level that matches the affordability gap (the amount of capital required to develop housing affordable to very low, low, and/or moderate income households), fewer affordable units may be constructed when compared to on-site compliance. In order to create incentive for developers to provide affordable units on-site, in lieu fees would have to be set at a level comparable to the affordability gap.

Second, on-site compliance means that affordable housing units will be constructed within a defined time frame (generally, jurisdictions require affordable units to be built concurrently with market rate units). With in lieu fees, the timing of development of affordable housing units depends on several factors, such as availability of land, identifying appropriate developers, and securing any additional subsidies to leverage in lieu fees (if necessary). Therefore, it is impossible to know exactly when affordable units will be constructed with in lieu fees, but it certainly will be substantially later that the market rate units which generated the inclusionary obligation.

Third, an important public policy purpose of an inclusionary housing program is to provide a mix of housing affordability levels at a single development. In other words, one benefit of an inclusionary housing program is to encourage developments that accommodate a mix of household income levels. Payment of in lieu fees means that a developer does not provide affordable units on-site.

c. Economic Analysis

As we stated earlier, most jurisdictions prefer that developers construct affordable housing units on-site rather than pay in lieu fees. Again, to create incentive for developers to provide affordable units on-site, in lieu fees should be set at a level that is at a minimum comparable to the affordability gap.

Table 6 and **Table 7** provide examples of in lieu fees assuming that the City seeks to set these fees at levels comparable to the affordability gap. **Table 6** assumes an inclusionary requirement of 10 percent and 15 percent for the rental housing prototypes, and **Table 7** assumes an inclusionary requirement of 10 percent, 15 percent, and 20 percent for owner housing prototypes. These figures are based on the affordability gap analysis. The fees are expressed as a fee on all units, not just the inclusionary units.

In these tables, we assume that developers are required to pay in lieu fees on fractional units. For example, if a developer chooses to build inclusionary units on-site, then the developer is allowed to "round down" if the inclusionary requirement results in a fractional unit. However, if a developer chooses to pay in lieu fees, then the developer is required to pay in lieu fees on fractional units.

Table 6

2003
Examples of In Lieu Fees
Rental Housing Prototypes
City of Long Beach Inclusionary Housing Study

Inclusionary Requirements	Prototype	
	Renter 1 Townhomes	Renter 2 Type V Apartments
Total Units	22	50
Inclusionary Units, Alternative 1: 10% of units @ 45% of Median In Lieu Fee, Alternative 1	$16,171[(1)]	$14,191
Inclusionary Units, Alternative 2: 10% of units @ 60% of Median In Lieu Fee, Alternative 2	$14,344	$11,977
Inclusionary Units, Alternative 3: 15% of units @ 60% of Median In Lieu Fee, Alternative 3	$20,905	$16,864

(1) Fees are on all units, not just the inclusionary units.
Source: David Paul Rosen & Associates

Table 7

2003
Examples of In Lieu Fees
Owner Housing Prototypes
City of Long Beach Inclusionary Housing Study

Inclusionary Requirements	Prototype			
	Owner 1 **Single Family Detached**	**Owner 2** **Townhomes**	**Owner 3** **Type V Condos**	**Owner 4** **Type I High-Rise Condos**
Total Units	10	22	50	100
Inclusionary Units, Scenario 1: 10% of units @ 90% of Median In Lieu Fee, Scenario 1	$9,543[(1)]	$6,786	$4,283	$17,307
Inclusionary Units, Scenario 2: 15% of units @ 90% of Median In Lieu Fee, Scenario 2	$9,543	$10,278	$6,035	$25,101
Inclusionary Units, Scenario 3: 20% of units @ 90% of Median In Lieu Fee, Scenario 3	$20,254	$13,571	$8,620	$37,080

(1) Fees are on all units, not just the inclusionary units.
Source: David Paul Rosen & Associates.

2. Off-Site Compliance

a. Advantages of Off-Site Compliance Option

A developer may seek off-site compliance for two reasons. First, the cost of developing the affordable units on-site may be more expensive than the development of off-site units if the housing product-type of the market rate development is expensive. To maintain a consistent "character" for a project and to maintain its perceived attractiveness, a developer may feel the need to build an affordable unit that is comparable in quality to a market rate unit. In this case, off-site construction may be less expensive because the developer can build less expensive units in the off-site affordable housing development (by developing smaller units, using less expensive interior finishes, or constructing a higher density development).

Second, off-site compliance may provide a developer an opportunity to take advantage of lower land costs at a separate location. In addition, cost savings of off-site compliance can result from allowing developers to build affordable units that are smaller or use lower grade of interior finishes than the market rate development, and/or allowing the developer to construct an affordable development that has a higher density than the market rate development.

Under certain circumstances, more affordable units may be built under an off-site compliance option. For example, developers building market rate developments at high per unit total development costs (e.g. luxury homes) may agree to build a greater number of affordable units if the developer is allowed to build the affordable units off-site. Second, off-site compliance allows developers to partner with nonprofit affordable housing developers to construct units off-site. The market rate and non-profit developers can act as joint partners in an off-site affordable housing development. From the City's perspective, partnerships with nonprofit developers can be beneficial because of nonprofit developers' expertise in developing affordable units and their long-term interest in maintaining quality affordable housing developments.

b. Disadvantages

Most jurisdictions do not consider off-site compliance an attractive alternative compliance measure for two reasons. First, as we stated with payment of in lieu fees, a public policy purpose of an inclusionary housing program is to provide a mix of housing affordability levels at a single development.

Second, off-site compliance can be problematic to enforce. Most jurisdictions with off-site compliance options require construction of affordable units either before or concurrently with the construction of the market rate units. In practice, this requirement may be difficult to enforce. Because of the complexities of the development process (including potential community opposition to an affordable housing project), it is difficult for a developer to synchronize the construction of two projects. A developer has more economic incentive to complete the market rate units than the affordable units. A jurisdiction may not have any effective methods to enforce compliance with the inclusionary requirement once the market rate units have started construction.

c. Economic Analysis

(1) New Construction

The Inclusionary Housing Study provided estimated potential cost savings from off-site new construction as well as off-site acquisition/rehabilitation. The amount of potential cost savings for off-site new construction is directly related to the per unit cost of land. Housing prototypes with higher per unit land costs benefit more from off-site compliance. For the renter prototypes, cost savings from off-site new construction ranges from approximately $800 per unit for the stacked flats apartments to $3,000 per unit for the townhomes. For the owner prototypes, cost savings from off-site new construction ranges from about $600 per unit for the high-rise condominiums to $9,200 per unit for the single family detached home developments.

Table 8 summarizes the per unit cost savings from off-site new construction for the rental prototypes. **Table 9** summarizes the per unit cost savings from off-site new construction for the owner prototypes.

Table 8

2003
Summary of Potential Cost Savings from Off-Site New Construction[1]
Rental Housing Prototypes
City of Long Beach Inclusionary Housing Study

Inclusionary Requirements	Prototypes	
	Renter 1 Townhomes, 22 units	Renter 2 Type V Apartments, 50 units
10% of Units at 45% AMI	$2,010/unit	$789/unit
10% of Units at 60% AMI	$2,010/unit	$789/unit
15% of Units at 60% AMI	$3,015/unit	$1,105/unit

(1) Cost savings are on all units, not just inclusionary units.

Source: David Paul Rosen & Associates

Table 9

2003
Summary of Potential Cost Savings from Off-Site New Construction[1]
Owner Housing Prototypes
City of Long Beach Inclusionary Housing Study

Inclusionary Requirements	Prototypes			
	Owner 1 Small Lot SF Detached	Owner 2 Townhomes	Owner 3 Type V Condos	Owner 4 Type 1 High-Rise Condos
10% of Units at 45% AMI	$4,615/unit	$2,010/unit	$787/unit	$554/unit
15% of Units at 60% AMI	$4,615/unit	$3,015/unit	$1,102/unit	$831/unit
20% of Units at 60% AMI	$9,230/unit	$4,019/unit	$1,574/unit	$1,109/unit

(1) Cost savings are on all units, not just inclusionary units.

Source: David Paul Rosen & Associates

(2) Multifamily Acquisition/Rehabilitation

Complying with an inclusionary housing ordinance through off-site acquisition and rehabilitation of multifamily units can also result in savings if the cost of acquisition and rehabilitation is lower than the cost of providing new construction affordable units on-site. The Inclusionary Housing Study estimates that the total development cost for acquisition and rehabilitation of multifamily units can be approximately $113,000 per unit, which is below the cost of producing a new construction unit for all of the housing prototypes.

Assuming a total development cost of $113,000 for acquisition and rehabilitation (including relocation costs), off-site compliance can result in per unit savings ranging from $5,200 per unit to $11,900 per unit for the rental prototypes and $8,800 per unit to $43,200 per unit for the owner prototypes. DRA is aware that the City of Long Beach was involved in a extensive acquisition/rehabilitation development that cost in excess of $200,000 per unit. In this analysis, we assume that there is no unit reconfiguration. In addition, we assume that there are properties available for purchase, which may not be the case where owners have little debt to service and can charge high rents.

Cost savings are directly related to the per unit cost for each of the prototypes. As per unit costs of a housing prototype increase, cost savings from off-site compliance increases. **Table 10** summarizes potential per unit cost savings resulting from off-site multifamily acquisition and rehabilitation compliance for the rental prototypes, and **Table 11** summarizes potential per unit cost savings resulting from off-site multifamily acquisition and rehabilitation compliance for the owner prototypes.

Table 10

2003
Summary of Potential Cost Savings from Off-Site Acquisition/Rehabilitation[1]
Rental Housing Prototypes
City of Long Beach Inclusionary Housing Study

	Prototypes	
Inclusionary Requirements	**Renter 1 Townhomes, 22 units**	**Renter 2 Type V Apartments, 50 units**
10% of Units at 45% AMI	$7,935/unit	$5,205/unit
10% of Units at 60% AMI	$7,935/unit	$5,205/unit
15% of Units at 60% AMI	$11,902/unit	$7,287/unit

(1) Cost savings on all units, not just inclusionary units.

Source: David Paul Rosen & Associates

Table 11

2003
Summary of Potential Cost Savings from Off-Site Acquisition/Rehabilitation[1]
Owner Housing Prototypes
City of Long Beach Inclusionary Housing Study

	Prototypes			
Inclusionary Requirements	**Owner 1** **Small Lot SF Detached**	**Owner 2** **Townhomes**	**Owner 3** **Type V Condos**	**Owner 4** **Type 1 High-Rise Condos**
10% of Units at 45% AMI	$16,025/unit	$11,829/unit	$8,828/unit	$21,582/unit
15% of Units at 60% AMI	$16,025/unit	$17,744/unit	$12,360/unit	$32,372/unit
20% of Units at 60% AMI	$32,050/unit	$23,659/unit	$17,657/unit	$43,163/unit

(1) Cost savings on all units, not just inclusionary units.

Source: David Paul Rosen & Associates

Allowing off-site compliance of an inclusionary housing ordinance through the acquisition and rehabilitation of multifamily buildings can result in significant potential savings for developers. In all cases, off-site compliance through the acquisition and rehabilitation of multifamily buildings results in greater cost savings than allowing compliance through off-site new construction.

Because of the large stock of multifamily buildings in Long Beach in need of rehabilitation, the City may have a strong public policy purpose for encouraging compliance through acquisition/rehabilitation. One potential issue, however, is that some developers of new construction housing have little experience with multifamily acquisition and rehabilitation. Therefore, some developers may not be able to effectively employ this compliance option. In these cases, however, it may be possible to encourage a partnership with a nonprofit or for-profit developer experienced in acquisition/rehabilitation to develop the affordable units.

3. Land Dedication

In addition to off-site compliance, most jurisdictions allow developers to dedicate land for the development of affordable housing as a means for complying with an inclusionary housing ordinance. Most jurisdictions require developers who choose to provide land to deed land to a nonprofit housing developer or to the jurisdiction enforcing the inclusionary requirements.

To ensure that the land is appropriate for the construction of affordable housing, most ordinances enumerate conditions for acceptance of the land. Conditions include:

- the land is appropriately zoned for the affordable housing development;
- the site is buildable;
- the site is free of environmental issues; and,
- the land can accommodate the number of affordable units required under the inclusionary housing program.

In addition, cities may require that the lots are graded and fully improved, and with fees paid. Cities may also require that the value of the land should at least equate with the cost of providing affordable housing units on-site. Finally, a city can require that a site have appropriate amenities available, such as location nears schools, parks, grocery stores, and other services.

a. Advantages of Land Dedication Option

Land dedications provide the opportunity for market rate developers to partner with nonprofit affordable housing developers. The market rate developer provides the land to a nonprofit developer, which then develops the affordable units. Similar to off-site compliance, partnerships with nonprofit developers can be beneficial because of nonprofit developers' expertise in developing affordable units and their long-term interest in maintaining quality affordable housing developments.

In addition, similar to off-site compliance, it is possible that more affordable units can be constructed under a land dedication option. For example, a developer of a single family detached market rate development may provide land that is zoned for multifamily housing. If the affordable units are constructed as multifamily units rather than single family detached homes, a city may benefit from a greater number of affordable units.

b. Disadvantages

One potential disadvantage of land dedications is that subsidies will be necessary to build the affordable units. The high cost of development in Long Beach means that free land is not sufficient to entirely bridge the affordability "gap" for most types of housing. We modeled six housing prototypes in the affordability gap analysis. Without exception, all housing prototypes in the study would require additional subsidy to bridge the affordability gap even with no land cost.

For example, the Renter 2, Type V Stacked Flats prototype targeted to households at 60 percent of area median income with a ten percent inclusionary requirement requires a subsidy of approximately $120,000 per affordable unit. However, per unit land costs for this prototype are approximately $15,600. Even if the land cost of $19,900 per unit is eliminated, there remains an affordability gap of $104,400 that must be bridged from sources of subsidies.

If the City requires that the value of the land equal the cost of providing affordable housing units on-site, then it is possible to mitigate the disadvantage described in the above paragraph. In summary, the City can benefit from a potential partnership between a market rate developer and a nonprofit affordable housing developer that results in a greater number of affordable housing units. This conclusion, however, is based on the nonprofit affordable housing developer's ability to secure subsidies for the affordable housing units.

Using the example above, a market rate housing developer would provide land valued at $120,000 for each affordable unit required under an inclusionary program. The Renter 2 Type V Stacked Flats prototype is 50 units. If a jurisdiction adopted a 10 percent inclusionary requirement and required that the value of any land dedication equate with the cost of providing affordable housing units on-site, then a developer would provide land valued at $600,000 (5 units multiplied by $120,000). Assuming a land cost of $25 per square foot, a parcel of approximately 24,000 square feet ($600,000 divided by $25) should be provided by the market rate housing developer. A lot of over one-half acre should be able to accommodate substantially more than five units in higher density areas. This means that a land dedication can result in more affordable units than the five affordable units if the units were built on-site. However, the developer of the affordable units would have to secure subsidies from other sources to build the affordable units, because, as we discuss earlier, free land is insufficient to cover the affordability gap in Long Beach.

This illustration shows how a land dedication option can facilitate a partnership between a market rate developer and a nonprofit affordable housing developer. In this example, the most appropriate scenario is to provide land at no cost to a nonprofit affordable housing developer. The nonprofit developer seeks available affordable housing subsidies, such as low income housing tax credits, tax increment housing set-aside funds, and then develops and oversees management of the affordable units.

F. Providing Developers with Strategies to Offset the Costs of Complying with Inclusionary Requirements

Recognizing that an inclusionary housing program results in economic costs to a land owner or developer, many jurisdictions provide developers with strategies to reduce costs of complying with inclusionary requirements. The most common strategies are as follows:

- alternative housing product types: allowing the developer to provide a different type of housing product for the inclusionary units, such as allowing the construction of townhomes in a single family detached housing development;

- alternative unit comparability standards: allowing modest differences between affordable housing units and market rate units, such as reducing the size of affordable units (while maintaining the same number of bedrooms), reducing the number of bathrooms, and using more modest grades of interior finish;

- fee deferral: deferring payment of building permit fees to lower construction interest expenses borne by the developer; and,

- density bonus: providing developers with a density bonus, thereby lowering per unit land expenses.

This section provides an analysis of each of these methods for reducing costs of compliance with an inclusionary program. **Table 12** summarizes the strengths and weaknesses of each approach.

Table 12

Summary of Strengths and Weaknesses
of Strategies to Offset Costs of Compliance
City of Long Beach Inclusionary Housing Study

Offset/Incentive	Strengths	Weaknesses
Alternative Housing Product Type	• lowers costs of compliance by reducing per unit construction costs	• applies only to single family detached housing developments • developers may not want to provide alternative housing product type on-site
Alternative Unit Comparability Standards (1)	• lowers costs of compliance by reducing construction costs	• City must establish clear minimum standards that are easy to apply by City staff
Fee Deferrals	• lowers costs of compliance by reducing construction interest expense	• fee deferrals do not result in significant savings to developers • reduces revenues to public agency
Density Bonus	• may lower costs of compliance by reducing per unit land expenses	• developers may not seek to increase density • can be controversial in low density neighborhoods

(1) These may include allowing affordable units to be smaller than the market rate units, using modest interior finishes, and reducing the number of bathrooms.

1. Alternative Housing Product Type

a. Discussion of Advantages and Disadvantages

Some jurisdictions allow developers to provide a different type of housing product for affordable housing units to reduce the cost of developing the affordable units. The most common method is to allow a developer to construct townhomes for the affordable units, although the market rate units are single family homes. In practice, this alternative compliance measure applies only to single family home developments. For townhome configurations, developers may not choose to lower costs by changing the product type to, for example, a stacked flat configuration. Changing that product type represents a significant change in the perception of a development.

As one example, Union City (Alameda County) allows constructing affordable units as townhomes in a single family detached housing development. However, Union City establishes standards for the affordable units. Union City allows construction of duplexes on corner lots in a single family detached development. Union City limits the number of duplexes that can be constructed to satisfy the affordable housing requirements. Their ordinance states that no more than fifty percent of the total duplex units built can be affordable units.

State law requires all cities to allow satisfaction of inclusionary requirements by building apartment units. Again, developers of single family detached homes and townhomes may not choose to lower costs by changing the product type to apartments because of the significant change in the perception of a development. The primary advantage of this option is the lower cost of providing the affordable units. The disadvantage is that developers may not want to construct alternative unit types to preserve the "character" and perception of their development. Developers may not view this option as feasible.

Another potential alternative compliance measure would allow developers additional "credit" for units with higher bedroom count than market-rate units. One alternative would be to allow developers to match the required number of bedrooms with fewer units. For example, where the inclusionary requirement is for six two-bedroom units, for a total of 12 bedrooms, alternative compliance might allow the developer to provide four three-bedroom units or three four-bedroom units, both of which also total 12 bedrooms. The City should ensure, however, that this option does not lead to the development of significantly fewer affordable units.

b. Economic Analysis

Using the Owner 2 Townhome and the Owner 1 single family detached housing prototypes as a basis for the economic analysis, we estimate the cost savings to a developer of a single family detached housing development who is allowed to build the affordable units as townhomes. Cost savings result from lower per unit land costs. Excluding land costs, the net development cost of the townhome units is slightly higher than the single family

detached units ($198,910 for the townhome units versus $180,949 for the single family detached units).

Our analysis indicates that allowing developers to construct affordable units as townhomes in a single family detached development is approximately $2,300 per unit, assuming a 10 percent inclusionary requirement.

2. Alternative Unit Comparability Standards

a. Discussion

In order to reduce the cost of constructing affordable units, jurisdictions may choose to allow developers to use alternative comparability standards for the affordable units. Common alternatives include:

- allowing the affordable units to be smaller than the market rate units;
- allowing the developer to provide fewer bathrooms in the affordable units; and,
- using more modest grades of interior finishes in the affordable units.

When a jurisdiction allows a developer to reduce the size of the affordable units, it should set a minimum standard to ensure some degree of comparability with the market rate units. In addition to a comparability standard, households should have the same access to project amenities.

Reducing the number of bathrooms works best if the number of bathrooms provided in market-rate units closely approximates the number of bedrooms. For example, if the market rate units offer three bedrooms and two bathrooms, reducing the number of bathrooms for affordable units is not a good strategy. However, if the market rate units offer three bedrooms and three bathrooms, then reducing the number of bathrooms to two is acceptable.

Using more modest grades of interior finishes is a common strategy used by jurisdictions. Most commonly, cities allow developers to eliminate luxury items from affordable units. However, there should be a standard for items that should be included in all units, such as dishwashers, cooking facilities, and laundry facilities.

It is also typical that exterior design must be consistent with the market-rate units. Most developers seek to have a consistent exterior design, so this is not typically an issue with developers.

b. Economic Analysis

With one exception, alternative unit comparability standards do not represent substantial savings to developers. The one exception is allowing affordable units to be smaller than market rate units.

Table 13 summarizes examples of cost savings for each rental prototype from each of the alternative unit comparability standards. Collectively, the cost savings range from almost $3,500 per unit for the Type V High-Density Apartments to $4,300 per unit for the Townhome prototype, assuming a 10 percent set aside The significant portion of these savings is derived from the reduction in the size of the inclusionary units. The other alternative compliance standards – reduction in number of bathrooms and reduction in interior finish quality – do not represent significant savings to developers.

Table 14 summarizes examples of cost savings for the owner prototypes from each of the alternative unit comparability standards. Similar to the rental prototypes, most of the cost savings result from the reduction in size of the inclusionary units. The other alternative compliance methods do not represent significant cost savings to developers.

Taken individually, these alternative unit standards do not represent a significant benefit to developers. However, taken as a package and including deferral of fees (discussed below), cost savings become more relevant. As a package, all of the alternative unit standards plus deferral of fees result in cost savings ranging from $4,000 per unit for the stacked flat condominium prototype to $5,200 for the Type I High-Rise Condo prototype, assuming a 10 percent set aside.

3. Fee Deferrals

a. Discussion

Many jurisdictions allow developers to defer the payment of building permit fees as a means for offsetting a portion of the cost of providing inclusionary units. In practice, most jurisdictions that provide this option to developers allow payment of permit fees to be deferred until the jurisdiction issues a certificate of occupancy (typically, building permit fees are paid prior to the start of construction). By allowing a developer to defer payment of these fees, the developer is able to reduce their construction loan interest expenses.

Some jurisdictions do not provide fee deferrals because they believe it is a developer's obligation to provide inclusionary units without any subsidy provided by the jurisdiction. In addition, as we demonstrate in the economic analysis, fee deferrals do not significantly reduce a developer's expense. Therefore, most developers do not view fee deferrals as a major offset to their cost of providing inclusionary units.

b. Economic Analysis

Table 13 and Table 14 summarize potential cost savings by deferring the payment of building permit fees from the start of construction to issuance of the certificate of occupancy. The cost savings on a per unit basis are very low, ranging from $777 per unit for the rental stacked flats prototype to $1,000 for the high density condo prototype.

Table 13

2003
Total Economic Value of Incentives Excluding Density Bonus
Rental Housing Prototypes
Long Beach Inclusionary Housing Analysis

	Prototypes	
	Renter 1 Townhomes	**Renter 2 Type V Apartments**
Number of Units (Baseline)	22	50
POTENTIAL COST SAVINGS FROM INCENTIVES **% Affordable Units**	**Per unit savings**	**Per unit savings**
Scenario 1 10% @ 45% AMI		
Reduction in BMR Unit Sizes [(1)]	$2,358	$1,545
Reduction in BMR Unit Bathroom Count [(2)]	$295	$257
Reduction in BMR Interior Finish Quality [(3)]	$864	$970
Deferral of Fees [(4)]	$777	$764
Total Savings Per Unit, Scenario 1	**$4,293**	**$3,536**
Scenario 2 10% @ 60% AMI		
Reduction in BMR Unit Sizes [(1)]	$2,358	$1,545
Reduction in BMR Unit Bathroom Count [(2)]	$295	$257
Reduction in BMR Interior Finish Quality [(3)]	$864	$970
Deferral of Fees [(4)]	$777	$764
Total Savings Per Unit, Scenario 2	**$4,293**	**$3,536**
Scenario 3 15% @ 60% AMI		
Reduction in BMR Unit Sizes [(1)]	$3,243	$2,059
Reduction in BMR Unit Bathroom Count [(2)]	$295	$386
Reduction in BMR Interior Finish Quality [(3)]	$1,409	$1,390
Deferral of Fees [(4)]	$777	$764
Total Savings Per Unit, Scenario 3	**$5,723**	**$4,600**

(1) Based on reduction in unit sizes of affordable units to the following minimum unit sizes: one-bedroom–700 SF; two-bedroom–900 SF; three-bedroom–1,100 SF.

(2) Assumes number of bathrooms may be reduced by one (from two baths to one bath) in two-bedroom/two-bath affordable units.

(3) Assumes $10.00 per square foot reduction in interior finish costs.

(4) Assumes deferral of development impact fee payment from start of construction to certificate of occupancy. Represents a deferral of 12 months for Renters #1 and #2.

Source: David Paul Rosen & Associates

Table 14

Total Economic Value of Incentives Excluding Density Bonus
Owner Housing Prototypes
Long Beach Inclusionary Housing Analysis

	Prototypes			
	Owner 1 Small-Lot Single-Family Detached	**Owner 2 Townhomes**	**Owner 3 Type V Condos**	**Owner 4 Type I High-Rise Condos**
Number of Units (Baseline)	10	22	50	100
POTENTIAL COST SAVINGS FROM INCENTIVES				
% Affordable Units @ 90% AMI				
Scenario 1 **10%**				
Reduction in BMR Unit Sizes [(1)]	$3,387	$2,649	$1,456	$2,175
Reduction in BMR Unit Bathroom Count [(2)]	$0	$07	$493	$962
Reduction in BMR Interior Finish Quality [(3)]	$1,350	$1,091	$1,080	$1,090
Fee Deferral [(4)]	$758	$873	$1,008	$1,006
Total Savings Per Unit, Scenario 1	**$5,495**	**$4,613**	**$4,038**	**$5,232**
Scenario 2 **15%**				
Reduction in BMR Unit Sizes [(1)]	$3,387	$3,974	$1,456	$2,900
Reduction in BMR Unit Bathroom Count [(2)]	$0	$0	$986	$1,346
Reduction in BMR Interior Finish Quality [(3)]	$1,350	$1,591	$1,520	$1,570
Fee Deferral [(4)]	$750	$873	$1,008	$1,006
Total Savings Per Unit, Scenario 2	**$5,495**	**$6,437**	**$4,971**	**$6,822**
Scenario 3 **20%**				
Reduction in BMR Unit Sizes [(1)]	$4,064	$5,298	$2,622	$4,350
Reduction in BMR Unit Bathroom Count [(2)]	$1,614	$0	$1,233	$1,923
Reduction in BMR Interior Finish Quality [(3)]	$2,500	$2,182	$2,220	$2,180
Fee Deferral [(4)]	$758	$873	$1,008	$1,006
Total Savings Per Unit, Scenario 3	**$8,936**	**$8,353**	**$7,082**	**$9,459**

(1) Based on reduction in unit sizes of affordable units to the following minimum unit sizes: one-bedroom–700 SF; two-bedroom–900 SF; three-bedroom–1,100 SF.

(2) Assumes number of bathrooms may be reduced by one (from two baths to one bath) in two-bedroom/two-bath affordable units.

(3) Assumes $10.00 per square foot reduction in interior finish costs.

(4) Assumes deferral of development impact fee payment from start of construction to certificate of occupancy. Represents a deferral of 15 months for Owners #1 and #2 and 18 months for Owners #3 and #4.

Source: David Paul Rosen & Associates

4. Density Bonus

Some jurisdictions provide density bonuses to developers that construct inclusionary units. In practice, most jurisdictions incorporate the State's density bonus law in their inclusionary housing ordinances. The State's density bonus law requires local jurisdictions to provide developers with a density bonus of at least 25 percent, plus at least one additional incentive, if a developers constructs at least 20 percent of units for lower income households, 10 percent for very low income households, or 50 percent for senior citizens.

a. Advantages of Density Bonuses

The significant advantage of a density bonus is that a developer can reduce per unit land costs and increase profit by increase unit production. Because of the high cost of land in Long Beach, a density bonus can be economically valuable to a developer, depending upon the density of the development. **Table 15** summarizes potential cost savings from a 25 percent and 50 percent density bonus for the rental prototypes. Potential cost savings range from $6,000 per unit for the High-Density rental prototype, to $26,735 per unit for the Townhome rental prototype. **Table 16** summarizes potential cost savings from a 25 percent and 50 percent density bonus for the owner prototypes. Potential cost savings range from an increase in costs by $3,700 per unit for the High Rise owner development, to a savings of $66,200 per unit for the Single Family Detached ownership prototype.

Table 15

2003
Summary of Potential Cost Savings from 25% and 50% Density Bonus[1]
Rental Housing Prototypes
City of Long Beach Inclusionary Housing Study

	Prototypes	
Density Bonus	**Renter 1 Townhomes**	**Renter 2 Type V High-Density Apartments**
"Baseline" Number of Units	22	50
"Baseline" Density	25 units/acre	70 units/acre
25% Density Bonus	$17,240/unit	$5,990/unit
50% Density Bonus	$26,735/unit	$9,599/unit

(1) Cost savings on all units, not just inclusionary units.

Source: David Paul Rosen & Associates

Table 16

2003
Summary of Potential Cost Savings from 25% and 50% Density Bonus[1]
Owner Housing Prototypes
City of Long Beach Inclusionary Housing Study

Density Bonus	Prototypes			
	Owner 1 **Small Lot SF Detached**	**Owner 2** **Townhomes**	**Owner 3** **Type V Condos**	**Owner 4** **Type 1 High-Rise Condos**
"Baseline" Number of Units	10	22	50	100
"Baseline" Density	15 units/acre	25 units/acre	70 units/acre	100 units/acre
25% Density Bonus	$52,577/unit	$12,174/unit	$35/unit	($3,738)/unit
50% Density Bonus	$66,227/unit	$22,002/unit	$6,681/unit	($3,382)/unit

(1) Cost savings on all units, not just inclusionary units.

Source: David Paul Rosen & Associates

Not surprisingly, prototypes that are already relatively dense do not benefit greatly from a density bonus. In fact, one prototype, the High Rise condominium development, actually increases costs with a 25 percent density bonus. This results from the need to create more levels of subterranean parking to accommodate the increase in the number of units. Prototypes that are relatively less dense, such as the Single Family Detached prototype, benefit greatly from a density bonus. However, as we discuss below, many developers of lower density developments do not want to take advantage of the density bonus because public perception may change with higher densities.

b. Disadvantages of Density Bonuses

In many cases, developers do not seek to take advantage of density bonuses for a variety of reasons. First, some developers cannot use a density bonus because their project already has a high number of units per acre. For example, we did not model a 25 percent density bonus for the loft rental prototype because the development is already at 68.5 units per acre. A density bonus for this development is impractical. Second, a density bonus is not applicable to certain types of developments. For example, we did not model a density bonus for the single family home prototype because a homebuilder is only constructing a single unit. Third, many developers do not seek to increase the density of their developments to maintain a level of density they believe is critical for the marketing of their development. Fourth, in some instances, a higher density would require developers to change their buildings to a more expensive construction type, which can negate the per unit land cost savings from a density bonus. For example, if a higher density requires changing the construction of a building from a wood frame to a concrete and steel structure, per unit construction costs may rise significantly. Fifth, higher densities in many communities can be controversial. Some existing community members may protest a higher density development in their neighborhood.

5. Revised Parking Standards and Zoning Code Reform

Many jurisdictions offer potential cost savings to developers subject to inclusionary requirements by reducing parking requirements (or permitting tandem parking), or reducing open space requirements (through modifying floor area ratios, setbacks, narrowing street widths, etc.). While these strategies can reduce costs to developers, the potential increase in density of development can be controversial.

The main advantage of reducing parking requirements is that this strategy can result in significant savings on projects with subterranean parking. Construction of subterranean parking is expensive. Reducing parking requirements allows developers to reduce these costs. With on-grade parking or podium parking, cost savings are not significant because the costs of providing these types of parking arrangements are relatively less expensive.

G. Public Subsidies and Inclusionary Housing Requirements

The purpose of an inclusionary housing program is to create an additional tool for a jurisdiction to meets its affordable housing needs without public subsidy. Allowing the use of public subsidies – federal, state, or local – to bridge the affordability gap for inclusionary units defeats this purpose. The use of subsidies for inclusionary units takes away the ability to use those subsidies for additional affordable housing purposes. Therefore, we do not recommend allowing developers to use public subsidies to meet inclusionary requirements unless developers use these subsidies to "broaden" or "deepen" affordability with their developments.

A jurisdiction can allow use of public subsidies to increase the percentage of affordable units in a development. Alternatively, a jurisdiction can allow use of public subsidies to target household incomes that are lower than required by an inclusionary housing ordinance. The allowable amount of public subsidy should be tied directly to additional affordability provided by the developer, based on an affordability gap analysis.

For example, assume that a jurisdiction targets ownership households at 100 percent of area median income with its inclusionary program. Therefore, the per unit public subsidy of an inclusionary ownership unit should directly lower the price of the unit below the price that is affordable to a household at 100 percent of area median income. If, for example, a developer is required to provide affordable ownership units at $250,000 under an inclusionary program, then a $20,000 per affordable unit public subsidy should reduce the price of the home to $230,000. In addition, a reduction in price may be accompanied by lowering the targeted household income of a unit.

Alternatively, assume that the affordability gap for rental units in a jurisdiction is $100,000 per affordable unit. Also, assume that a developer secures $1 million in public subsidies. The jurisdiction should require the developer to provide ten affordable units in addition to the inclusionary units the developer is already required to provide.